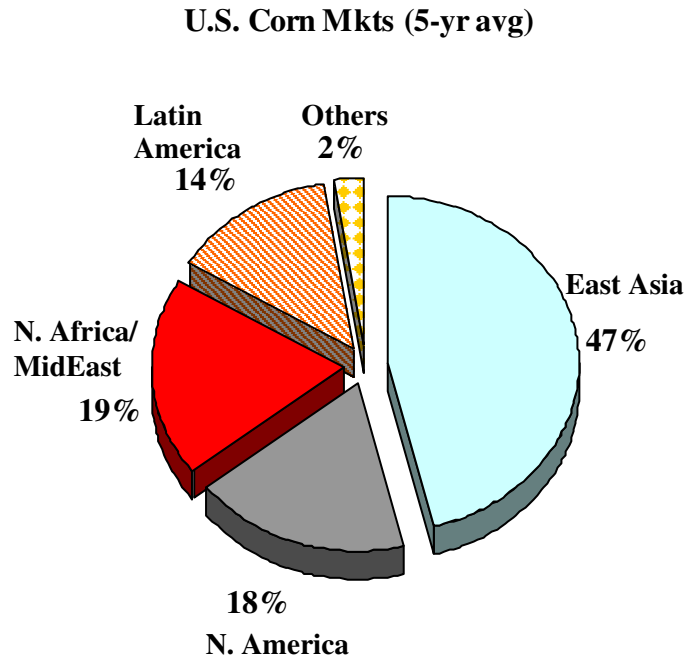

COARSE GRAINS: WORLD MARKETS AND TRADE

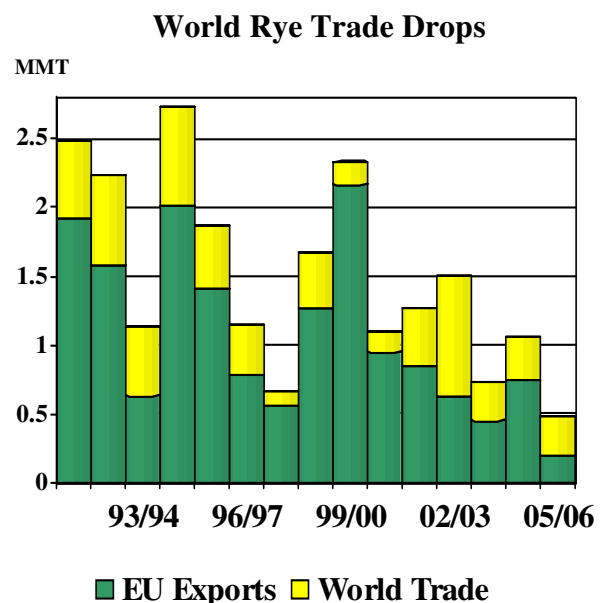
MONTHLY HIGHLIGHTS:

Corn: With the highly pathogenic avian influenza (AI), H5N1, being reported in Russia, Turkey, and several European countries, and with its resurgence in China and Southeast Asia, speculation is rife with predictions of slashed global feed demand. It is worth noting that, during the previous outbreak in Asia a year ago, the effects were mostly temporary and, with a few exceptions, poultry production and feed demand bounced back within months. In the case of China, reductions in poultry consumption were offset by increased pork consumption. Although the spread of H5N1 to Europe is alarming, the region has weathered its own bird flu storms before. In 2003, the Netherlands had an outbreak of H7N7, another highly pathogenic AI strain, which led to the culling of over 25 million birds. Within a year, the poultry sector largely recovered and feed demand returned to its previous level.



Although the effects of the current AI outbreak could reduce corn demand in the short run, particularly given the increased media attention and consumer reaction, at present the situation is not expected to reduce U.S. exports over the next year. The fact that Southeast Asia, Europe, and Russia have not imported much U.S. corn in recent history means that U.S. market share will not suffer direct losses from AI. Elsewhere in the world, the United States is unlikely to face increased competition as diminished supplies reduce exports from Argentina, China, and Brazil. Collectively, these three competitors' exports are expected to drop by 29 percent, or nearly 7 million tons. Thus, despite lagging U.S. export sales in recent weeks, the forecast for U.S. corn exports for 2005/06 remains unchanged.

Rye Trade Drops: World rye trade is slashed this month to the lowest level in nearly 30 years as a result of smaller expected sales of EU rye out of intervention stocks. Export licenses are currently at only 2,000 tons this marketing year,



compared to 261,000 at this time last year. Drought in Iberia has resulted in strong demand for feed grains, and there have been steady sales of intervention rye to Spain. Bids for these intervention supplies have been at almost 80 euros, compared to bids near 50 euros for export outside the EU-25. The Commission also recently opened a tender for intervention rye for use in ethanol, but so far there has only been one bid and that was rejected.

World rye trade has traditionally been dominated by EU-25 exports, especially as large intervention stocks were exported at low prices. However, rye is no longer eligible to be sold into intervention and, with shrinking intervention stocks and stronger domestic demand for use in ethanol, EU exports (and consequently world rye trade) will likely remain at lower levels for the long-term.

Hungary's Grain Challenges Continue: Recent travel to Hungary has reinforced the impression that the country continues to face significant challenges in marketing and storing grain under a new system. Hungary has learned a great deal about operating under EU rules for grain marketing but faces another year of potentially burdensome stocks, especially for corn.

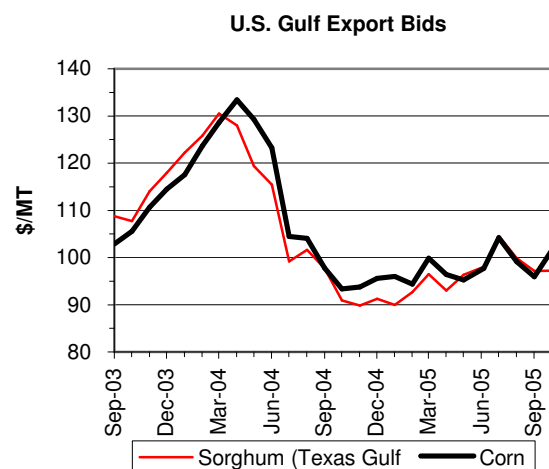
Government officials note that intervention storage has increased significantly since last year and are confident that even though the 2005/06 marketing year could see a similar amount of corn entering intervention as last year (2.5 million tons), storage space will be nearly sufficient. Traders, however, seem less optimistic.

Hungary has had two excellent crop years in a row, which is unusual; this, combined with adoption of the EU grain system, has caused the glut of grain. Short-term increases in demand for feed and industrial uses such as ethanol are not likely, given reduced animal numbers and lack of new investment in alcohol plants. Excessive handling of corn as small lots are consolidated and moved into and out of temporary storage facilities will contribute to brokenness and losses in storage, magnifying the problem of surplus disposal. Finally, it will likely take another few years before local prices rise to and stabilize at a level close to the intervention price.

The European Commission is limited in what it can presently do--and perhaps what it is willing to do--to facilitate third-country trade in corn as a means of alleviating Hungary's problem. Government officials and traders suggest that the long-term solution to Hungary's troubles (and perhaps those of the EU-25) might include a lowering of the intervention price, possibly with adjustments for different crops and location. In addition, limiting the amount of grain permitted into intervention could also lower stockpiles.

PRICES:

Domestic: October export bids for #2 yellow corn averaged nearly \$102/MT, up almost \$6 from last



month. October export bids for #2 yellow sorghum (Texas Gulf) were unchanged at \$97/MT.

Sorghum and corn prices have again diverged and are significantly higher than those of a year ago. Corn prices have been affected by strong export shipments in October and a high cash basis.

TRADE CHANGES IN 2005/2006

Selected Exporters

- **Argentina corn** is down 500,000 tons to 12.7 million due to a reduction in acreage.
- **Ukraine corn** is raised 500,000 tons to 2.1 million as a result of a larger crop.
- **EU-25 rye** is cut by 400,000 tons to only 200,000, the lowest in more than 20 years, on smaller expected sales of rye out of intervention for export.

Selected Importers

- **Japan corn** is dropped 200,000 tons to 16.5 million as feed demand shows no signs of growing.
- **Korea corn** is down 100,000 tons to 8.4 million as a result of higher use of feed quality wheat.
- **Japan rye** is lowered 200,000 tons to 150,000 on smaller expected imports from the European Union.

TRADE CHANGES IN 2004/2005

Selected Exporters

- **United States corn** is raised 700,000 tons based on near-complete annual trade data.
- **China corn** is raised 289,000 tons to 7.6 million with year-end trade data.
- **EU-25 barley** is up 500,000 tons to 3.8 million tons with very strong shipments in recent months.
- **Russia barley** is raised nearly 200,000 tons to 1.488 million on year-end trade data.
- **United States sorghum** is down 100,000 tons to 4.5 million because of slow late-season shipments. This is the lowest export level in 19 years.

Selected Importers

- **Japan and Korea corn** are adjusted reflecting year-end trade data.

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- **Japan barley** is up nearly 200,000 tons to 1.522 million, the highest in 5 years, with year-end trade data. A smaller change was made to the 05/06 estimate.
 - **Saudi Arabia barley** is up 500,000 tons to 6.5 million with very strong late-season shipments from Ukraine and Russia.
 - **Mexico sorghum** is down by 200,000 tons to 2.9 million tons, the lowest level in 8 years, as corn and cracked corn shipments have displaced sorghum.